

EXHIBIT B

THE HONORABLE MARSHA J. PECHMAN

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

IN RE: WASHINGTON MUTUAL
MORTGAGE BACKED SECURITIES
LITIGATION,

This Document Relates to: ALL CASES

Master Case No.: C09-0037 (MJP)

[Consolidated with: Case Nos. CV09-
0134 MJP, CV09-0137 MJP, and CV09-
01557 MJP]

**DECLARATION OF DENISE LUEDTKE
IN SUPPORT OF PLAINTIFFS'
OPPOSITION TO MOTION FOR
SUMMARY JUDGMENT**

*Declaration of Denise Luedtke in
Support of Plaintiffs' Opposition
to Motion for Summary Judgment
Case No. C09-037 MJP*

1 I, Denise Luedtke, declare and state as follows:

2 That I am over eighteen years of age and a resident of San Jose, CA. If called as a
3 witness, I could and would testify to the following facts, of which I have personal knowledge:

4 I was employed by Washington Mutual (hereinafter, "WaMu") from January 2002
5 through March of 2006 at a Loan Fulfillment Center in Campbell, CA (hereinafter the "LFC" or
6 the "Campbell LFC"). I was hired as a "Team Manager" in the Wholesale Division, where loans
7 were originated by independent brokers and submitted to the LFC for processing, underwriting
8 and closing. I moved up to the position of "Senior Team Manager" in 2004, and again in the fall
9 of that year to the position of "Underwriting Senior Team Manager". In the summer of 2005 I
10 transferred to the Retail Division, still in the same position of Underwriting Senior Team
11 Manager. In January 2006, I was promoted to be the "LFC Manager" until the Campbell LFC
12 closed in March. The LFC then moved to Pleasanton, CA but I chose not to remain employed as
13 it was too far from my home.

14 As Underwriting Senior Team Manager, I had upwards of forty direct reports,
15 supervising LFC staff including Loan processors, Underwriters, and Closers. We had production
16 goals each month, to close a certain number of loans submitted to us by independent wholesale
17 Brokers and then in retail by WaMu Loan Consultants, as both regularly supplied the LFC with
18 loan applications from their own clientele. I worked first in the Wholesale Division dealing with
19 loans from brokers until 2005, when I moved into the Retail Division working with loans from
20 Loan Consultants in the LFC.

21 WaMu underwriters were provided with written underwriting guidelines in WaMu's
22 Underwriting Manual specific for each loan program. Underwriters were trained by WaMu
23 management that if these guidelines were met, the underwriter's decision should be to approve
24 the loan, and if not, then the decision should be to decline. However, early on in my tenure as
25 loan volume increased, there were always exceptions made permitting borrowers who did not
26 meet underwriting guidelines to get loans anyway.

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1 In approximately late 2004 or early 2005 the WaMu corporate office came out with some
2 new policies. There had been some issues with rate locks, where rates were not locked until the
3 time of closing, and WaMu had already committed rates and prices to borrowers. Loan-to-Value
4 ("LTV") exceptions, and Debt-to-Income ("DTI") exceptions were commonly approved during
5 the loan origination process, and these affected pricing as well, which also prompted WaMu to
6 develop a price-lock policy and an exceptions policy. These were then included as sections of the
7 WaMu Underwriting Manual. Prior to this, the same types of exceptions were routinely approved
8 by Team Managers, the Credit Manager or the LFC manager. However, this was an informal
9 process based on the level of exception and total circumstances where there was no clear
10 authority level prescribed for specific exception ranges.

11 The written underwriting policy did provide certain levels of exception authority,
12 depending on underwriter experience and position and hierarchy of management. However, there
13 were no limits on the extent and size of exceptions that were regularly approved. Matrices or
14 grids defined the level of authority required for approval up to and beyond common exception
15 ranges, and then the higher levels of management authority for exceptions beyond the defined
16 ranges. The policy identified exception authority for Underwriters, Senior Underwriters, Team
17 Managers, the LFC Manager, and then the highest level at the LFC who was the Credit Manager.
18 If none of these people approved the exception, or it went beyond the Credit Manager's
19 authority, there was still another higher level of management in the Seattle Corporate office that
20 would approve the exception. At times, there were large loans that needed significant exceptions,
21 which was recognized by experienced, high-producing sales agents who bypassed the LFC
22 altogether and went directly to a main Credit Manager in Seattle to get approvals.

23 In this area of California, most of the borrowers had high credit scores so there was not
24 much of a need for FICO exceptions. Most exceptions were made on DTI ratios, as the
25 borrowers tended to have more cumulative debt payments than underwriting guideline limits
26 allowed. Loans submitted by brokers in the wholesale channel or by WaMu's own Loan



1 Consultants in retail were first subjected to the Automated Underwriting System (“AUS”) to
2 determine if the loan met Fannie Mae or Freddie Mac standards. If so, Underwriters or Senior
3 Loan Processors checked to ensure that all information was correctly input to verify the AUS
4 approval. Once approved, those loans were targeted for sale to the secondary market. When a
5 loan was not AUS approved, it was referred to Underwriting for a full manual underwrite to
6 determine if WaMu would make the loan for its own “portfolio”.

7 The vast majority of loans processed through the LFC during my tenure were “Stated
8 Income / Stated Asset” Option ARMs. It was common for borrowers of these loan types to
9 misrepresent higher incomes than the norm for their professions, and higher assets than they
10 actually had, in order to get bigger loans for the homes they wanted to buy. Wholesale brokers
11 and WaMu retail loan consultants who were usually well experienced with WaMu underwriting
12 guidelines coached borrowers about the amount of income and assets to state on an application in
13 order to get the maximum loan they could get with the permissive stated loan format and
14 WaMu’s practice of granting exceptions to make loans. This is one reason why the most
15 common exception was for DTI ratios. WaMu qualified borrowers by underwriting at the
16 temporary, low interest “teaser” rate payments, using their gross income. Most borrowers got
17 large enough loans that even the temporarily low payment amounts, when added to the rest of
18 their monthly debt service, equaled too large a percentage of their income to meet underwriting
19 guidelines.

20 I estimate that a substantial majority of loans made at the Campbell LFC were to
21 borrowers who overstated their income, assets, or both. At times, incomes appeared so inflated
22 that underwriters requested documentation to at least verify assets. Most of the established
23 WaMu brokers and loan consultants at that time produced a high volume of loans for WaMu.
24 When underwriters requested documentation from these top producers, they routinely contacted
25 management at the LFC and the loans were regularly approved with just the call.

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1 Management communicated to the LFC production staff that WaMu was competing with
2 Countrywide for market share. Whenever Countrywide had quoted pricing on a loan for a
3 borrower who did not meet WaMu guidelines, WaMu always approved exceptions and made
4 those loans as well.

5 Guidelines for the “back end” DTI ratio were usually around 40% to 60% total monthly
6 debt payments to income. However, exceptions were routinely approved by underwriting at up to
7 50% debt, and then by the Credit Manager or LFC manager for anything above that percentage.
8 DTI exceptions were almost always approved at all levels, and when a high producing salesman
9 was involved, whether a Broker or Loan Consultant, they were always successful in getting any
10 kind of exception approved without concern for underwriting findings.

11 Underwriters and Team Managers at the LFC expressed concerns and frustration about the
12 widespread approval of exceptions in “water cooler” conversations, team meetings, and sometimes
13 in discussions with the LFC Manager. I always believed that this practice of approving exceptions
14 on stated loan applications added a critical level of risk, especially to stated-loan products that had
15 added risk in the first place. I believed and expressed to management, as did other underwriters at
16 the LFC, that this practice would result in high default rates. Management, including upper
17 management at the LFC, shared these concerns. However, the directives for widespread use of
18 exceptions, as an alternative method to underwriting guidelines for making more loans, came from
19 corporate management and were company policy.

20 Exceptions were also regularly made to the guidelines for the percentage of Loan-to-
21 Value (LTV). Underwriters all had authority to increase loan percentage an additional 5% LTV.
22 Many times exceptions were made on Home Equity Line of Credit (“HELOC”s), as the most
23 common loan program was the “80-10-10”, with an 80% first, 10% second (the HELOC) and
24 10% down from the borrower. The typical exception that underwriters approved with their own
25 authority was a 15% HELOC, so that the properties were 95% financed but with an 80% first,
26 especially because mortgage insurance was required on any loan over 80% LTV. Management

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1 often approved exceptions going up to 20% on the HELOC for 100% financing, up to a top limit
2 exception of a 25% HELOC for 105% financing. For investor-borrowers, underwriting
3 guidelines specified the maximum number of mortgage loans permitted per individual, and an
4 aggregate dollar amount from WaMu. Exceptions were commonly made for these types of
5 borrowers, who were almost always represented by a top producing Broker or Loan Consultant.
6 WaMu consistently approved exceptions in these scenarios.

7 WaMu's investor/borrowers typically financed some of their properties as "second
8 homes" in order to get lower interest rates than they would get for rental properties. Second
9 home loans were basically the same pricing and rates as primary residences. Investment property
10 loans cost additional points, interest rates were higher, and required more down as LTV was
11 lower. It was almost always easy to tell when borrowers were misrepresenting that they were
12 buying a second home, or in many cases, yet another second home. Underwriters were able to
13 determine that these were seldom actually second homes, based on the areas and neighborhoods,
14 appraisals and other information readily available and regularly used in the normal course of
15 underwriting.

16 These alleged second homes were not in typical second home or vacation home type
17 areas. Many were in areas with other rental properties, including areas with other rentals owned
18 by the borrower. Many times the appraisals identified the home to have existing tenants.
19 Underwriters were given creative explanations by the sales people and borrowers, such as the
20 additional second home in a neighborhood of rentals was for the borrower to stay near his other
21 properties at times and that although the appraisal reported a tenant in the home, that tenant had
22 agreed to move. There was no proof given for such explanations, and WaMu had no practice to
23 follow-up and determine if whatever borrowers represented would happen with a property's use
24 actually did occur.

25 WaMu regularly approved exceptions allowing borrowers to get lower interest "second
26 home" mortgages that were clearly evident as rental properties at the time of underwriting. I



1 estimate that about 25% of the loans made at the LFC were for rental properties bought by the
2 investor-type borrowers. The great majority of those got WaMu secondary residence loans, and
3 most were actually for rental properties.

4 I estimate that approximately 20% to 30% and possibly more of the loans funded and
5 closed at the Campbell LFC did not meet underwriting guidelines and were made with
6 management-approved exceptions. Sometimes exceptions were documented and sometimes not.
7 To determine all loans made with exceptions would require a re-underwrite using the applicable
8 guidelines at the time. I estimate that approximately 30% of the loans made at the LFC with
9 exceptions were not documented in the loan files.

10 The multiple properties, investor-type borrower, often failed to meet underwriting
11 guidelines for some of their loans, especially for the DTI ratio and LTV percentage. These
12 borrowers were typically represented by high-producers in sales for WaMu, who were able to get
13 the most problematic loans done by getting exceptions approved, by whatever level of
14 management they needed to get. The Campbell LFC had some of the highest producing sales
15 people in the company, in both categories of wholesale Brokers and retail Loan Consultants.
16 High-producers had reputations in the LFC that they could anything approved that they
17 submitted, including when borrower's stated incomes were far higher than normal for their
18 profession, and when their DTI ratios were well beyond debt limits in guidelines.

19 These high producers and others in both the wholesale and retail channels often went
20 directly to management in the LFC and at times to corporate for approvals on loans that they
21 determined in the application stage would not meet WaMu guidelines, or if underwriters
22 requested additional information. All other producers had to wait, for the most part, until loans
23 had gone from the underwriters and up the management chain of approval until exceptions were
24 approved. The LFC operations were driven by sales and sales goals dominated all disciplines,
25 including underwriting.



1 I declare, under penalty of perjury, that the foregoing is true and correct. Executed on
2 May 9, 2012.

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5 Denise Luedtke